

# **Cincinnati Christian University**

Consolidated Financial Report  
June 30, 2017

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## **Independent Auditor's Report**

Board of Trustees  
Cincinnati Christian University  
Cincinnati, Ohio

### **Report on the Financial Statements**

We have audited the accompanying consolidated financial statements of Cincinnati Christian University and its subsidiaries (the University), which comprise the consolidated statements of financial position as of June 30, 2017 and 2016, the related consolidated statements of activities and cash flows for the years then ended, and the related notes to the consolidated financial statements (collectively, the financial statements).

### **Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### **Auditor's Responsibility**

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

## **Independent Auditor's Report (Continued)**

### **Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Cincinnati Christian University and its subsidiaries as of June 30, 2017 and 2016, and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

### **Emphasis of Matter Regarding Going Concern**

The accompanying financial statements have been prepared assuming that Cincinnati Christian University and its subsidiaries will continue as a going concern. As discussed in Note 19 to the financial statements, the University has suffered recurring decreases in net assets that raises substantial doubt about its ability to continue as a going concern. Management's plans in regard to these matters are also described in Note 19. The financial statements do not include any adjustments that might result from the outcome of this uncertainty. Our opinion is not modified with respect to this matter.

### **Other Matters**

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards, as required by Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards* is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

### **Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our reports dated March 29, 2018 and February 4, 2017 on our consideration of Cincinnati Christian University's internal control over financial reporting and on our tests of compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of those reports is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. Those reports are an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Cincinnati Christian University's internal control over financial reporting and compliance.

*RSM US LLP*

Cincinnati, Ohio  
March 29, 2018

**Cincinnati Christian University**

**Consolidated Statements of Financial Position**  
**June 30, 2017 and 2016**

	2017	2016
<b>Assets</b>		
Cash and cash equivalents	\$ 722,659	\$ 1,257,099
Student accounts receivable, net	300,775	136,804
Contributions receivable, net	38,691	54,530
Other receivables	147,853	138,327
Investments	1,062,300	2,739,499
Inventory	123,013	143,492
Prepaid expenses	54,823	150,872
Beneficial interests held in trusts	601,209	571,905
Property and equipment, net	13,051,408	13,335,154
<b>Total assets</b>	<b>\$ 16,102,731</b>	<b>\$ 18,527,682</b>
<b>Liabilities and Net Assets</b>		
Accounts payable	\$ 1,120,427	\$ 690,862
Accrued payroll and related withholdings	215,443	227,830
Annuities payable	493,462	535,835
Revolving notes payable	500,000	500,000
Advanced tuition and other student deposits	273,919	415,148
Deposits held for others	13,999	13,964
Long-term debt	6,401,814	6,703,207
Capital leases payable	200,095	373,935
<b>Total liabilities</b>	<b>9,219,159</b>	<b>9,460,781</b>
Net assets:		
Unrestricted	95,611	2,013,421
Temporarily restricted	2,538,208	2,871,160
Permanently restricted	4,249,753	4,182,320
<b>Total net assets</b>	<b>6,883,572</b>	<b>9,066,901</b>
<b>Total liabilities and net assets</b>	<b>\$ 16,102,731</b>	<b>\$ 18,527,682</b>

See notes to consolidated financial statements.

Cincinnati Christian University

**Consolidated Statement of Activities**  
**Year Ended June 30, 2017**

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenues and other support:				
Student tuition, fees and other charges	\$ 10,831,033	\$ -	\$ -	\$ 10,831,033
Less student aid	4,691,251	-	-	4,691,251
<b>Net tuition, fees and other charges</b>	<b>6,139,782</b>	<b>-</b>	<b>-</b>	<b>6,139,782</b>
Government grants	53,550	7,362	-	60,912
Contributions	1,139,443	180,052	67,433	1,386,928
Auxiliary enterprises	2,975,280	-	-	2,975,280
Net interest income and investment gains	192,423	56,820	-	249,243
Net assets released from restrictions and changes in donor designations	577,186	(577,186)	-	-
<b>Total revenues and other support</b>	<b>11,077,664</b>	<b>(332,952)</b>	<b>67,433</b>	<b>10,812,145</b>
Expenses:				
Instruction	3,742,544	-	-	3,742,544
Student services	3,118,309	-	-	3,118,309
Academic support	1,112,893	-	-	1,112,893
Auxiliary enterprises and activities	2,388,424	-	-	2,388,424
Institutional support	2,488,269	-	-	2,488,269
Fundraising	184,788	-	-	184,788
<b>Total expenses</b>	<b>13,035,227</b>	<b>-</b>	<b>-</b>	<b>13,035,227</b>
Other gains:				
Miscellaneous gains	17,355	-	-	17,355
Gain on sale of property and equipment	22,398	-	-	22,398
<b>Total other gains</b>	<b>39,753</b>	<b>-</b>	<b>-</b>	<b>39,753</b>
<b>Change in net assets</b>	<b>(1,917,810)</b>	<b>(332,952)</b>	<b>67,433</b>	<b>(2,183,329)</b>
Net assets:				
Beginning	2,013,421	2,871,160	4,182,320	9,066,901
Ending	\$ 95,611	\$ 2,538,208	\$ 4,249,753	\$ 6,883,572

See notes to consolidated financial statements.

**Cincinnati Christian University**

**Consolidated Statement of Activities  
Year Ended June 30, 2016**

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenues and other support:				
Student tuition, fees and other charges	\$ 9,838,181	\$ -	\$ -	\$ 9,838,181
Less student aid	3,684,727	-	-	3,684,727
<b>Net tuition, fees and other charges</b>	6,153,454	-	-	6,153,454
Government grants	96,819	-	-	96,819
Contributions	1,901,683	1,114,334	53,260	3,069,277
Auxiliary enterprises	2,286,358	-	-	2,286,358
Net interest income and investment losses	(51,760)	(7,294)	-	(59,054)
Net assets released from restrictions and changes in donor designations	522,815	(515,940)	(6,875)	-
<b>Total revenues and other support</b>	10,909,369	591,100	46,385	11,546,854
Expenses:				
Instruction	4,215,037	-	-	4,215,037
Student services	3,012,184	-	-	3,012,184
Academic support	1,340,544	-	-	1,340,544
Auxiliary enterprises and activities	2,347,702	-	-	2,347,702
Institutional support	2,451,462	-	-	2,451,462
Fundraising	484,618	-	-	484,618
<b>Total expenses</b>	13,851,547	-	-	13,851,547
Other losses:				
Miscellaneous losses	(15,729)	-	-	(15,729)
Loss on sale of property and equipment	(33,423)	-	-	(33,423)
<b>Total other losses</b>	(49,152)	-	-	(49,152)
<b>Change in net assets</b>	(2,991,330)	591,100	46,385	(2,353,845)
Net assets:				
Beginning	5,004,751	2,280,060	4,135,935	11,420,746
Ending	<u>\$ 2,013,421</u>	<u>\$ 2,871,160</u>	<u>\$ 4,182,320</u>	<u>\$ 9,066,901</u>

See notes to consolidated financial statements.

**Cincinnati Christian University**

**Consolidated Statements of Cash Flows**  
**Years Ended June 30, 2017 and 2016**

	2017	2016
Cash flows from operating activities:		
Change in net assets	\$ (2,183,329)	\$ (2,353,845)
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation and amortization	905,002	927,560
Net realized and unrealized investment (gains) and losses	(210,599)	127,188
(Gain) loss on sale of property and equipment	(22,398)	33,423
Non-cash contributions received	(62,612)	(225,582)
Actuarial adjustment on annuity obligations	61,467	51,882
Contributions restricted for long-term investment	(72,433)	(30,740)
Changes in operating assets and liabilities:		
Student accounts receivable and other receivables	(173,497)	191,760
Contributions receivable	15,839	58,264
Inventory	20,479	1,512
Prepaid expenses	96,049	(81,540)
Accounts payable and accrued payroll and related withholdings	417,178	54,750
Advanced tuition and other student deposits	(141,229)	(89,783)
Annuities payable	(103,840)	(111,894)
Deposits held for others	35	(307)
<b>Net cash used in operating activities</b>	<b>(1,453,888)</b>	<b>(1,447,352)</b>
Cash flows from investing activities:		
Proceeds from sale of investments	3,017,933	2,188,175
Purchase of investments	(1,096,827)	(969,273)
Purchase of property and equipment	(606,777)	(538,004)
Proceeds from the sale of property and equipment	27,600	13,500
<b>Net cash provided by investing activities</b>	<b>1,341,929</b>	<b>694,398</b>
Cash flows from financing activities:		
Contributions restricted for long-term investment	72,433	30,740
Net repayments under revolving notes payable	-	(500,000)
Borrowings under long-term debt	25,473	65,539
Payments on long-term debt	(346,547)	(356,224)
Payments on capital leases payable	(173,840)	(195,927)
<b>Net cash used in financing activities</b>	<b>(422,481)</b>	<b>(955,872)</b>
<b>Net decrease in cash and cash equivalents</b>	<b>(534,440)</b>	<b>(1,708,826)</b>

(Continued)



**Cincinnati Christian University**

**Consolidated Statements of Cash Flows (Continued)**  
**Years Ended June 30, 2017 and 2016**

	2017	2016
Cash and cash equivalents:		
Beginning	<u>\$ 1,257,099</u>	<u>\$ 2,965,925</u>
Ending	<u>\$ 722,659</u>	<u>\$ 1,257,099</u>
Supplemental disclosure of cash flow information:		
Cash paid during the year for interest	<u>\$ 436,214</u>	<u>\$ 459,801</u>

Supplemental disclosure of non-cash investing and financing activities:

During the year ended June 30, 2016, Cincinnati Christian University financed equipment, buildings and vehicle acquisitions totaling \$247,069 through various financing arrangements and capital leases.

See notes to consolidated financial statements.

## Cincinnati Christian University

### Notes to Consolidated Financial Statements

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#### Note 1. Description of the Organization

**Organization and purpose:** Cincinnati Christian University (CCU) was incorporated on July 19, 1928 in the state of Ohio as a not-for-profit institution. CCU's purpose is to educate persons for the ministry and church-related leadership vocations, as well as develop well-rounded leaders who follow Christ and positively impact their community, country and the world. CCU is a coeducational institution of higher learning offering undergraduate and graduate degrees and has been accredited by The Higher Learning Commission of the North Central Association of Colleges and Schools.

Cincinnati Christian University Foundation (the Foundation) is a Section 501(c) (3) organization organized under the laws of the state of Ohio for the purpose of providing financial and other support for, and to otherwise operate for the benefit of CCU. The Foundation was incorporated on December 5, 2011. CCU and the Foundation are related through common control.

CCU Management Company LLC (the Company) is a limited liability company that was organized under the laws of the state of Florida. The Company is a single member limited liability company in which the Foundation is the sole member. As a result, the Company is a disregarded entity by the Internal Revenue Service. The Company did not have any financial activity during the years ended June 30, 2017 and 2016.

#### Note 2. Summary of Significant Accounting Policies

The following is a summary of significant accounting policies followed in the preparation of the accompanying consolidated financial statements (collectively, the financial statements):

**Basis of presentation:** The financial statements include the accounts of CCU, the Foundation, and the Company, hereafter, collectively the University. All intercompany accounts and transactions are eliminated in consolidation. The accompanying financial statements are prepared in conformity with accounting principles generally accepted in the United States of America (U.S. GAAP) in accordance with the Financial Accounting Standards Board (FASB) Accounting Standards Codification.

**Net assets:** The University displays its net assets and activities based on the existence or absence of donor-imposed restrictions as follows:

**Unrestricted:** Net assets that are not subject to donor-imposed restrictions. The board of trustees retains full control to use in achieving any of its objectives.

**Temporarily restricted:** Net assets subject to donor-imposed restrictions that can be fulfilled either by actions of the University pursuant to those restrictions or that expire by the passage of time.

**Permanently restricted:** Net assets subject to donor-imposed restrictions that the principal remain in perpetuity by the University. As provided for in the gift instrument, the income earned is available to be used for unrestricted or temporarily restricted purposes subject to UPMIFA.

**Revenue recognition:** Tuition revenue is recognized during each semester that a student is enrolled in one of the University's programs. Tuition payments received but unearned as of the end of the fiscal year are recorded as advanced tuition and other student deposits and amortized over the appropriate academic term. Government grant revenue is recognized when it is earned by incurring the allowable expenditure.

## Cincinnati Christian University

### Notes to Consolidated Financial Statements

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#### Note 2. Summary of Significant Accounting Policies (Continued)

Contributions, including unconditional promises to give, are recognized as revenue when donors' commitments are received. Conditional promises to give are not recognized until the conditions are substantially met. Unconditional promises to give that are expected to be collected within one year are measured at net realizable value. Unconditional promises to give that are expected to be collected after one year are recorded at the present value of the estimated future cash flows using a risk-free rate of return. Discounts on those amounts are computed using interest rates applicable to the years in which the promises are received. Amortization of discounts is included in contribution revenue. The University records contributions of land, buildings, and equipment at the fair value of the property at the date of the gift. The gifts are recorded as unrestricted unless the donor places restrictions on their use. Donated securities are recorded as contributions at the fair value of the security at the date of the gift. The University uses the allowance method to determine uncollectible promises to give. The allowance is based on prior years' experience and management's analysis of specific promises to give.

When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the consolidated statements of activities as net assets released from restrictions. Restricted earnings on investments and donor restricted contributions whose restrictions are met in the same reporting period are reported as unrestricted support.

Revenue from auxiliary enterprises is recognized as goods or services are provided.

**Cash and cash equivalents:** Cash and cash equivalents include deposits in financial institutions, money market funds, and investments that have maturities of less than three months when purchased.

**Student accounts receivable:** Student accounts receivable represent credit extended to students with no underlying collateral. Such balances are due at the beginning of each semester and are stated net of an allowance for doubtful accounts. Students unable to meet the requirement are able to enter into short-term payment arrangements. Payments not made by the due date are considered past due. The University determines its allowance for doubtful accounts based on the estimated net realizable value of expected collections based on historical collection rates. Student accounts are written off when deemed uncollectible.

**Other receivables:** Other receivables consist of amounts due to the University for bookstore and other revenue generated by the University and for notes receivables that consist of student loan programs. The University determines its allowance for doubtful accounts based on the estimated net realizable value of expected collections based on historical collection rates. Other receivables are written off when deemed uncollectible.

**Investments:** Investments are measured at fair value in the consolidated statements of financial position (see Note 15). Investment income or loss is included in the consolidated statements of activities as increases or decreases in unrestricted net assets unless the investment income or loss is restricted by donor or law.

**Inventory:** Inventory consists primarily of textbooks, journals, clothing and other items sold in the University's bookstore. Inventory is stated at the lower of cost or market, with cost determined on the first-in, first-out method.

**Debt issuance costs, net:** The costs incurred related to the issuance of debt are presented net of the related debt and are amortized over the expected life of the related notes. Letter of credit fees are amortized over the period covered by the letter of credit. These costs are amortized using a method that approximates the effective interest method.

## Cincinnati Christian University

### Notes to Consolidated Financial Statements

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#### Note 2. Summary of Significant Accounting Policies (Continued)

**Beneficial interests held in trusts:** The University has entered into split interest agreements, including charitable remainder trusts and gift annuities which provide that the University make payments to designated beneficiaries in accordance with the applicable donor's trust or contractual agreement. The University is also the beneficiary of trusts held and administered by independent trustees. Under the terms of the trusts, the University has the right to receive a portion of the income earned on the trust assets. The fair value of the beneficial interest in the trusts is recognized as an asset and a temporarily restricted contribution at the date the trusts are established. The University's estimate of fair value is based on fair value information received from the trustees. The trust assets consist primarily of mutual funds, equities, certificates of deposit, fixed income obligations and corporate obligations. These assets are not subject to control or direction by the University. The University's beneficial interest in trusts is valued at the University's share of the investments held by the trust, measured at fair value at the report date.

**Property and equipment, net:** Expenditures for property and equipment and items which substantially increase the useful lives of owned assets are capitalized at cost at the date of acquisition. Donated property and equipment is recorded at the approximate fair value at the date of the gift. Repairs and maintenance are expensed when incurred.

Property and equipment is depreciated using the straight-line method over the estimated useful lives of the assets as follows:

Land improvements	40 years
Buildings	40 years
Equipment, furniture and fixtures	3-10 years
Vehicles	4-10 years
Library books	6-20 years

When property and equipment is retired or otherwise disposed of, the cost and accumulated depreciation are removed from the accounts and the resulting gain or loss is recognized. The University reviews its long-lived assets if changes in circumstances indicate that the carrying amount may not be recoverable. Management believes there has been no impairment in the carrying value of its long-lived assets.

**Annuities payable:** The University has entered into charitable gift annuity agreements. Under these agreements, a donor contributes assets to the University in exchange for the right to receive a fixed dollar annual return during the donor's lifetime. A portion of the transfer is considered to be a charitable contribution for income tax purposes. The difference between the assets transferred for the gift annuity and the liability for future payments, determined on an actuarial basis, is recognized as a contribution at the date of the gift. The annuity liability is revalued annually using a discount rate established at the inception of the agreement and appropriate actuarial assumptions. The change in value of the gift annuity contracts is included in temporary restricted contribution revenue.

**Functional allocation of expenses:** The costs of providing the programs and other activities have been summarized on a functional basis on the consolidated statement of activities. Expenses have been allocated based on the actual direct expenditure benefit to each respective function and allocation of indirect costs based on square footage assumptions.

**Use of estimates:** The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

## Cincinnati Christian University

### Notes to Consolidated Financial Statements

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#### Note 2. Summary of Significant Accounting Policies (Continued)

**Credit concentration:** From time to time, in the normal course of business, the University may have funds on deposit with financial institutions in excess of insured limits. The University has not experienced any losses and management believes the University is not exposed to any significant credit risk on cash.

**Income taxes:** CCU and the Foundation are recognized by the Internal Revenue Service as organizations exempt from income taxes on related income under Section 501(c)(3) of the U.S. Internal Revenue Code. The Foundation may have unrelated business income. Taxes on the unrelated business income, if any, are not material to the financial statements. In addition, CCU and the Foundation have been determined by the Internal Revenue Service not to be a "private foundation" within the meaning of Section 509(a) of the Internal Revenue Code.

Management has evaluated the tax positions of CCU and the Foundation and has concluded that no uncertain tax positions have been taken that require adjustment to or disclosure in the financial statements. CCU and the Foundation file a U.S. Federal tax return. Generally, CCU and the Foundation are no longer subject to tax examinations for fiscal years before June 30, 2014. CCU and the Foundation have no examinations in progress.

**Advertising:** The University expenses all advertising costs when incurred. Advertising expense was \$62,980 and \$43,932 for the years ended June 30, 2017 and 2016, respectively.

**Recent accounting pronouncements:** In April 2015, the FASB issued ASU No. 2015-03, Simplifying the Presentation of Debt Issuance Costs. This ASU is required to be applied to the financial statements issued for fiscal years beginning after December 15, 2015. The amendments in ASU 2015-03 are intended to simplify the presentation of debt issuance costs. These amendments require that debt issuance costs related to a recognized debt liability be presented in the consolidated statements of financial position as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. The recognition and measurement guidance for debt issuance costs are not affected by the amendments in this ASU. The University adopted this pronouncement in 2017 and such adoption did not have a material impact on the financial statements.

In May 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers (Topic 606), requiring an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. The updated standard will replace most existing revenue recognition guidance in GAAP when it becomes effective and permits the use of either a full retrospective or retrospective with cumulative effect transition method. In August 2015, the FASB issued ASU 2015-14 which defers the effective date of ASU 2014-09 one year making it effective for annual reporting periods beginning after December 15, 2018. The University is currently evaluating the impact of the adoption of this standard on its financial statements.

In February 2016, the FASB issued ASU 2016-02, Leases (Topic 842). The guidance in this ASU supersedes the leasing guidance in Topic 840, Leases. Under the new guidance, lessees are required to recognize lease assets and lease liabilities on the statement of financial position for all leases with terms longer than 12 months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the statement of activities. The new standard is effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. The University is currently evaluating the impact of the adoption of this standard on its financial statements.

## Cincinnati Christian University

### Notes to Consolidated Financial Statements

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#### Note 2. Summary of Significant Accounting Policies (Continued)

In August 2016, the FASB issued ASU 2016-14, Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities. This accounting standard makes improvements to the information provided in financial statements and accompanying notes of not-for-profit entities. The standard sets forth improvements to net asset classification requirements and the information presented about a not-for-profit entity's liquidity, financial performance and cash flows. ASU 2016-14 will be effective for years beginning after December 15, 2017. The University is currently evaluating the impact of the adoption of this standard on its financial statements.

In November 2016, the FASB issued ASU 2016-18, Statement of Cash Flows (Topic 230): Restricted Cash (a consensus of the FASB Emerging Issues Task Force), which provides guidance on the presentation of restricted cash or restricted cash equivalents in the statement of cash flows. ASU 2016-18 will be effective for the University beginning on January 1, 2019. The University is currently evaluating the impact of the adoption of this standard on its financial statements.

**Reclassifications:** Certain reclassifications have been made to the 2016 financial statement presentation to conform to 2017 presentation. Such reclassifications had no effect on the previously stated change in net assets.

#### Note 3. Receivables

Student accounts receivable consist of the following at June 30:

	2017	2016
Amounts due from students for tuition and other costs	\$ 450,775	\$ 286,804
Allowance for doubtful accounts	(150,000)	(150,000)
<b>Net value</b>	<b>\$ 300,775</b>	<b>\$ 136,804</b>

#### Note 4. Investments

Investments are summarized as follows at June 30:

	2017	2016
Equity securities	\$ 412,162	\$ 876,256
Corporate bonds and notes	146,559	367,530
Government bonds and notes	207,217	389,311
Mutual funds - equities	60,833	514,599
Mutual funds - bonds	26,660	96,258
Exchange-traded funds	208,869	495,545
<b>Total</b>	<b>\$ 1,062,300</b>	<b>\$ 2,739,499</b>

# Cincinnati Christian University

## Notes to Consolidated Financial Statements

### Note 4. Investments (Continued)

The consolidated statements of activities includes the following components of return on investments and the beneficial interests held in trusts for the years ended June 30:

	2017		
	Unrestricted	Temporarily Unrestricted	Total
Interest and dividends	\$ 49,451	\$ 11,622	\$ 61,073
Net realized and unrealized gains	160,293	50,306	210,599
Investment fees	(17,321)	(5,108)	(22,429)
	<u>\$ 192,423</u>	<u>\$ 56,820</u>	<u>\$ 249,243</u>

  

	2016		
	Unrestricted	Temporarily Unrestricted	Total
Interest and dividends	\$ 86,758	\$ 12,703	\$ 99,461
Net realized and unrealized losses	(113,910)	(13,278)	(127,188)
Investment fees	(24,608)	(6,719)	(31,327)
	<u>\$ (51,760)</u>	<u>\$ (7,294)</u>	<u>\$ (59,054)</u>

### Note 5. Property and Equipment

Property and equipment consists of the following at June 30:

	2017	2016
Land improvements	\$ 2,277,379	\$ 2,135,511
Buildings	16,738,858	16,651,251
Equipment, furniture and fixtures	6,697,156	6,426,735
Vehicles	426,409	446,298
Library books	2,061,683	2,100,456
	<u>28,201,485</u>	<u>27,760,251</u>
Accumulated depreciation and amortization	(16,847,728)	(16,085,102)
Land	1,650,005	1,650,005
Construction-in-progress	47,646	10,000
	<u>\$ 13,051,408</u>	<u>\$ 13,335,154</u>

## Cincinnati Christian University

### Notes to Consolidated Financial Statements

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#### Note 6. Annuities Payable

Annuities payable were \$493,462 and \$535,835 at June 30, 2017 and 2016, respectively. Assets held were zero and \$183,556 at June 30, 2017 and 2016, respectively. The annuity rates used range from 5.7 percent to 9.0 percent as of June 30, 2017 and 2016. For the years ended June 30, 2017 and 2016, payments made to annuitants totaled \$103,840 and \$111,894, respectively.

Contribution revenue related to annuity agreements was zero for both years ended June 30, 2017 and 2016, respectively. Changes in the status of gift annuity contracts and changes in value of the gift annuity contracts resulted in an increase in annuities payable of \$61,467 and \$51,882 for the years ended June 30, 2017 and 2016, respectively.

#### Note 7. Revolving Notes Payable

At June 30, 2017 and 2016, the University has a revolving note with a bank providing for maximum borrowings up to \$500,000 through May 2018. Borrowings under the revolving note accrue interest at the bank's index rate (3.50 percent for both years ended June 30, 2017 and 2016) plus 1.00 percent, but cannot be less than 5.25 percent, and is due quarterly. The revolving note is secured by substantially all of the University's assets and is subject to certain affirmative and negative covenants, including the maintenance of defined working capital, debt service coverage ratio, tangible net worth and debt to worth ratio. At June 30, 2017 and 2016, the University had outstanding borrowings of \$500,000 on the revolving note. The University was in violation of certain of the above covenants as of and for the year ended June 30, 2017. The bank has waived the covenant violations through June 30, 2018.

Interest expense on the revolving notes payable, long-term debt (Note 8), and capital leases payable (Note 9) was \$436,214 and \$459,801 for the years ended June 30, 2017 and 2016, respectively.

#### Note 8. Long-Term Debt

Long-term debt consists of the following at June 30:

	2017	2016
Term note payable to a bank, due in monthly installments of \$1,767, including interest at 5.75 percent through May 2019. The note is secured by a building.	\$ 226,859	\$ 234,555
Installment notes payable to an automobile credit company, due in monthly installments ranging from \$376 to \$801, expiring at various times through November 2018, bearing interest from zero percent to 8.59 percent per annum. The notes are secured by certain vehicles.	18,526	52,737
Installment notes payable to a company, due in monthly installments ranging from \$2,381 to \$3,434, expiring at various times through March 2018, bearing interest at 15 percent per annum. The notes represent seller financing of four houses and renovations to another two houses owned by CCU. The title transfers to CCU once the final payment on the installment notes is paid.	24,108	79,144



# Cincinnati Christian University

## Notes to Consolidated Financial Statements

### Note 8. Long-Term Debt (Continued)

	2017	2016
Term note payable to a bank, due in monthly installments of \$48,772, including interest at 5.75 percent through May 2018, when a balloon payment of \$5,862,958 will be due. The note is secured by substantially all of the University's assets and is subject to certain affirmative and negative covenants, including the maintenance of defined working capital, debt service coverage ratio, tangible net worth and debt to worth ratio. The University was in violation of certain of the above covenants as of and for the year ended June 30, 2017. The bank has waived the covenant violations through June 30, 2018.	\$ 6,060,555	\$ 6,285,340
Term note payable to a company, due in monthly installments of \$694 through June 2020. The note is non-interest bearing. The note is due on demand if the service contract with the company is cancelled prior to full repayment of the note. The note is secured by certain equipment, furniture and fixtures.	25,000	33,333
Term note payable to a bank, due in monthly installments of \$1,434, including interest at 6.30 percent through June 2020. The note is secured by certain fixtures.	46,934	60,710
Term note payable to a bank, due in monthly installments of \$490, including interest at 5.96 percent through November 2021. The note is secured by certain fixtures.	22,763	-
	6,424,745	6,745,819
Less: unamortized bond issuance cost	(22,931)	(42,612)
	<u>\$ 6,401,814</u>	<u>\$ 6,703,207</u>

The aggregate principal maturities of long-term debt are as follows:

<u>Year ending June 30,</u>	
2018	\$ 6,135,243
2019	251,237
2020	30,146
2021	5,492
2022	2,627
	<u>\$ 6,424,745</u>

## Cincinnati Christian University

### Notes to Consolidated Financial Statements

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#### Note 9. Capital Leases Payable

The University leases equipment, furniture and fixtures and building improvements under capital leases expiring in various years through March 2019. The assets and liabilities under capital leases are recorded at the lower of the present value of the minimum lease payments or the fair value of the asset. The assets are amortized over the lower of their related lease terms or their estimated productive lives. Amortization of assets under capital leases is included in depreciation expense for the years ended June 30, 2017 and 2016.

Minimum future lease payments required under current capital lease terms are as follows:

<u>Year ending June 30,</u>	
2018	\$ 167,453
2019	<u>38,373</u>
	205,826
Amount representing interest	<u>(5,731)</u>
<b>Capital leases payable</b>	<b><u>\$ 200,095</u></b>

Cost and accumulated amortization of the assets capitalized in connection with the above capital lease agreements are as follows:

	<u>2017</u>	<u>2016</u>
Equipment	\$ 552,126	\$ 802,223
Accumulated amortization	<u>(147,130)</u>	<u>(189,050)</u>
<b>Net value</b>	<b><u>\$ 404,996</u></b>	<b><u>\$ 613,173</u></b>

#### Note 10. Retirement Plan

The University sponsors a defined contribution retirement plan through Internal Revenue Code Section 403(b). The plan covers all full time employees who have completed one year of service and one thousand hours. Contributions to the covered employees' third-party annuity accounts are determined at the discretion of the board of trustees. The University's contribution percentage was 3 percent for the years ended June 30, 2017 and 2016. Voluntary employee contributions are permitted up to the maximum allowed by the Internal Revenue Code. Total retirement plan expense was \$54,920 and \$65,192 for the years ended June 30, 2017 and 2016, respectively.

## Cincinnati Christian University

### Notes to Consolidated Financial Statements

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#### Note 11. Commitments

**Operating leases:** The University leases various equipment under operating leases. The monthly payments on the non-cancelable leases range from \$228 to \$8,499 and expire at various times through September 2021. Rent expense under the operating leases was \$268,983 and \$276,855 for the years ended June 30, 2017 and 2016, respectively.

The following is a schedule, by year, of the future minimum rental payments required under the above operating leases:

<u>Year ending June 30,</u>	
2018	\$ 190,359
2019	170,771
2020	14,156
2021	2,736
2022	684
	<u>\$ 378,706</u>

#### Note 12. Temporarily Restricted Net Assets

Activity related to temporarily restricted net assets consist of the following for the years ended June 30:

	2017			
	Beginning Balance	Additions	Net Assets Released	Ending Balance
Alumni association	\$ 171,368	\$ 1,825	\$ 14,250	\$ 158,943
Double honor initiative project	838,318		370,759	467,559
Loan funds	178,376	365	10,404	168,337
Property and equipment	493,685	5,000	-	498,685
Student tuition and living expenses	147,468	14,819	6,318	155,969
Scholarships	293,331	19,391	27,800	284,922
Time restricted	442,499	42,020	27,772	456,747
Other	306,115	160,814	119,883	347,046
	<u>\$ 2,871,160</u>	<u>\$ 244,234</u>	<u>\$ 577,186</u>	<u>\$ 2,538,208</u>

**Cincinnati Christian University**

**Notes to Consolidated Financial Statements**

**Note 12. Temporarily Restricted Net Assets (Continued)**

	2016			
	Beginning Balance	Additions	Net Assets Released	Ending Balance
Alumni association	\$ 176,153	\$ 8,715	\$ 13,500	\$ 171,368
Double honor initiative project	-	838,318	-	838,318
Loan funds	181,728	282	3,634	178,376
Property and equipment	644,316	21,366	171,997	493,685
Student tuition and living expenses <sup>(a)</sup>	158,245	(2,941)	7,836	147,468
Scholarships	294,544	30,441	31,654	293,331
Time restricted <sup>(a)</sup>	481,828	(4,352)	34,977	442,499
Other	343,246	215,211	252,342	306,115
	<u>\$ 2,280,060</u>	<u>\$ 1,107,040</u>	<u>\$ 515,940</u>	<u>\$ 2,871,160</u>

<sup>(a)</sup> Temporarily restricted balance contains beneficial interests held in trust. During the year, total return on investment was negative resulting in a decrease to temporarily restricted balance.

**Note 13. Permanently Restricted Net Assets**

Net assets are permanently restricted for the following purposes at June 30:

	2017	2016
Scholarships	\$ 3,492,099	\$ 3,435,324
Russel School of Ministry	517,002	507,494
Other	240,652	239,502
	<u>\$ 4,249,753</u>	<u>\$ 4,182,320</u>

During 2016, the University made an appeal to certain donors for the removal of restrictions on certain contributions. The University was granted permission from the donors to release \$6,875 for unrestricted purposes, which is included in the consolidated statement of activities for the year ended June 30, 2016.

## Cincinnati Christian University

### Notes to Consolidated Financial Statements

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#### Note 14. Endowment Funds

The University's endowments include only donor-restricted endowment funds. As required by accounting principles generally accepted in the United States of America, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

The board of trustees of the University has interpreted the Ohio Uniform Prudent Management of Institutional Funds Act (OUPMIFA) enacted in the state of Ohio as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of the interpretation, the University classifies as permanently restricted net assets (a) the original value of the gifts donated to the permanent endowment, (b) the original value of subsequent gifts donated to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the University in a manner consistent with the standard of prudence prescribed by OUPMIFA.

In accordance with OUPMIFA, the University considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- (1) The duration and preservation of the fund
- (2) The purposes of the University and the donor-restricted endowment fund
- (3) General economic conditions
- (4) The possible effect of inflation and deflation
- (5) The expected total return from income and the appreciation of investments
- (6) Other resources of the University
- (7) The investment policies of the University

During 2017 and 2016, the fair value of assets associated with individual donor-restricted endowment funds were below the level that the donor or OUPMIFA required the University to retain as a fund of perpetual duration. This deficit was a result of the University liquidating investments during the year which were required to fund operational needs. In accordance with GAAP, deficiencies in the endowment fund that are reported in unrestricted net assets are \$2,464,797 and \$256,004 as of June 30, 2017 and 2016, respectively.

Endowment net asset composition by type of fund consists of the following as of June 30, 2017:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	<u>\$ (2,464,797)</u>	<u>\$ -</u>	<u>\$ 4,249,753</u>	<u>\$ 1,784,956</u>

# Cincinnati Christian University

## Notes to Consolidated Financial Statements

### Note 14. Endowment Funds (Continued)

Changes in endowment net assets for the year ended June 30, 2017 is as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	\$ (256,004)	\$ -	\$ 4,182,320	\$ 3,926,316
Investment return income	49,450	-	-	49,450
Net appreciation (realized and unrealized)	143,110	-	-	143,110
<b>Total investment return</b>	192,560	-	-	192,560
Contributions	-	-	67,433	67,433
Appropriation of endowment assets for expenditure	(2,401,353)	-	-	(2,401,353)
<b>Endowment net assets, end of year</b>	<b>\$ (2,464,797)</b>	<b>\$ -</b>	<b>\$ 4,249,753</b>	<b>\$ 1,784,956</b>

Endowment net asset composition by type of fund consists of the following as of June 30 2016:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	\$ (256,004)	\$ -	\$ 4,182,320	\$ 3,926,316

Changes in endowment net assets for the year ended June 30, 2016 is as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	\$ -	\$ -	\$ 4,135,935	\$ 4,135,935
Investment return income	86,758	-	-	86,758
Net depreciation (realized and unrealized)	(135,761)	-	-	(135,761)
<b>Total investment return</b>	(49,003)	-	-	(49,003)
Contributions	-	-	53,260	53,260
Removal of restrictions by donor	-	-	(6,875)	(6,875)
Appropriation of endowment assets for expenditure	(207,001)	-	-	(207,001)
<b>Endowment net assets, end of year</b>	<b>\$ (256,004)</b>	<b>\$ -</b>	<b>\$ 4,182,320</b>	<b>\$ 3,926,316</b>

The University's board of trustees has adopted investment and spending policies for endowment assets that attempt to provide for the preservation of capital with an emphasis on consistent long-term growth of principal and income without undue exposure to risk that will provide a predictable stream of funding to programs. The endowment assets include those assets of donor-restricted funds that the University must hold in perpetuity. The objective of the endowment fund's rate of return is to be equal to or greater than the spending rate plus the inflation rate.

**Note 14. Endowment Funds (Continued)**

To satisfy its long-term rate of return objectives, the University relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The University targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term objectives within prudent risk constraints.

The University has established an investment spending policy of appropriating for distribution each year a minimum of five percent of the previous four quarters' moving average of principal value (the donated value, excluding appreciation) of the endowment funds. In years where the current year earnings in the fund exceed the minimum, a formula is used to calculate the additional amounts above the minimum that can be disbursed from the fund while allowing the fund to grow at a rate in excess of inflation. If the investment return is less than the minimum return, the appropriation for distribution is adjusted appropriately. In establishing this policy, the University considered the long-term expected return on its endowment. Accordingly, over the long-term, the University expects the current spending policy to allow its endowment to grow at an acceptable rate annually. This is consistent with the University's objective to maintain the purchasing power of the endowment assets held in perpetuity or for a specified term as well as to provide additional real growth through new gifts and investment returns.

**Note 15. Fair Value of Financial Instruments**

The University measures its investments and its beneficial interest held in trusts at fair value on a recurring basis. A fair value hierarchy prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy consists of three broad levels that are ranked to indicate the quality and reliability of the resulting fair value measure:

- Level 1: Inputs utilize quoted market prices in active markets for identical assets or liabilities
- Level 2: Inputs may include quoted prices for similar assets and liabilities in active markets, as well as inputs that are observable for the asset and liability (other than quoted prices), such as interest rates, foreign exchange rates, and yield curves that are observable at commonly quoted intervals
- Level 3: Inputs are observable for the asset or liability, which is typically based on an entity's own assumptions, as there is little, if any, related market activity

The University uses appropriate valuation techniques based on the available inputs to measure the fair value of its investments. When available, the University measures fair value using Level 1 inputs because they generally provide the most reliable evidence of fair value. Level 3 inputs are only used when Level 1 and Level 2 inputs are not available.

Equity securities and exchange-traded funds are valued on the active market on which the individual securities are traded. Corporate and government bonds and notes are valued using pricing models maximizing the use of observable inputs for similar securities. Mutual funds are valued at the daily closing price as reported by the fund. Beneficial interests held in trusts are valued based on the investments held by the trusts.

For the fiscal years ended June 30, 2017 and 2016, the application of valuation techniques applied to similar assets and liabilities has been consistent.

# Cincinnati Christian University

## Notes to Consolidated Financial Statements

### Note 15. Fair Value of Financial Instruments (Continued)

The following tables set forth by level within the fair value hierarchy the University's financial assets and liabilities that were accounted for at a fair value on a recurring basis as of June 30, 2017 and 2016. The financial assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement. The University's assessment of the significance of a particular input to fair value measurement requires judgment and may affect the valuation of fair value assets and their placement within the fair value hierarchy levels.

	June 30, 2017			
	Level 1	Level 2	Level 3	Total
Investments:				
Equity securities:				
Consumer goods	\$ 11,066	\$ -	\$ -	\$ 11,066
Financial services	41,820	-	-	41,820
Healthcare	73,665	-	-	73,665
Industrial goods	54,614	-	-	54,614
Technology	128,578	-	-	128,578
Basic materials	23,173	-	-	23,173
Services	79,246	-	-	79,246
	412,162	-	-	412,162
Corporate bonds and notes	146,559	-	-	146,559
Government bonds and notes	207,217	-	-	207,217
Mutual funds:				
Equities:				
Small cap	7,089	-	-	7,089
Mid-cap	3,226	-	-	3,226
Large cap	16,614	-	-	16,614
Index	33,904	-	-	33,904
Bonds	26,660	-	-	26,660
	87,493	-	-	87,493
Exchange-traded funds:				
Index	60,208	-	-	60,208
Large cap	38,402	-	-	38,402
Mid cap	21,935	-	-	21,935
Small cap	25,839	-	-	25,839
Real estate	15,104	-	-	15,104
International	24,837	-	-	24,837
Fixed income	22,544	-	-	22,544
	208,869	-	-	208,869
<b>Total investments</b>	<b>\$ 1,062,300</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 1,062,300</b>
Beneficial interests held in trusts	\$ -	\$ -	\$ 601,209	\$ 601,209
Annuities payable	\$ -	\$ -	\$ 493,462	\$ 493,462



**Cincinnati Christian University**

**Notes to Consolidated Financial Statements**

**Note 15. Fair Value of Financial Instruments (Continued)**

	June 30, 2016			
	Level 1	Level 2	Level 3	Total
Investments:				
Equity securities:				
Consumer goods	\$ 63,267	\$ -	\$ -	\$ 63,267
Financial services	91,714	-	-	91,714
Healthcare	199,281	-	-	199,281
Industrial goods	88,559	-	-	88,559
Technology	145,091	-	-	145,091
Basic materials	-	-	-	-
Services	288,344	-	-	288,344
	<u>876,256</u>	<u>-</u>	<u>-</u>	<u>876,256</u>
Corporate bonds and notes	367,530	-	-	367,530
Government bonds and notes	389,311	-	-	389,311
Mutual funds:				
Equities:				
International	14,485	-	-	14,485
Small cap	74,402	-	-	74,402
Mid-cap	111,420	-	-	111,420
Large cap	106,371	-	-	106,371
Index	97,744	-	-	97,744
Other	110,177	-	-	110,177
	<u>514,599</u>	<u>-</u>	<u>-</u>	<u>514,599</u>
Bonds	96,258	-	-	96,258
	<u>610,857</u>	<u>-</u>	<u>-</u>	<u>610,857</u>
Exchange-traded funds:				
International	367,998	-	-	367,998
Real estate	40,100	-	-	40,100
Small cap	4,974	-	-	4,974
Mid-cap	4,822	-	-	4,822
Index	53,207	-	-	53,207
Fixed income	24,444	-	-	24,444
	<u>495,545</u>	<u>-</u>	<u>-</u>	<u>495,545</u>
<b>Total investments</b>	<u>\$ 2,739,499</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,739,499</u>
Beneficial interests held in trusts	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 571,905</u>	<u>\$ 571,905</u>
Annuities payable	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 535,835</u>	<u>\$ 535,835</u>

## Cincinnati Christian University

### Notes to Consolidated Financial Statements

#### Note 15. Fair Value of Financial Instruments (Continued)

The following is a reconciliation of assets in which significant unobservable inputs Level 3 were used in determining fair value:

	Beneficial Interests Held in Trusts	Annuities Payable	Total
Balance at July 1, 2016	\$ 571,905	\$ 535,835	\$ 1,107,740
Total gains (losses)	50,306	-	50,306
Interest and dividends	11,623	-	11,623
Fees	(5,108)	-	(5,108)
Sales	(27,517)	-	(27,517)
Change in value	-	(42,373)	(42,373)
<b>Balance at June 30, 2017</b>	<b>\$ 601,209</b>	<b>\$ 493,462</b>	<b>\$ 1,094,671</b>

	Beneficial Interests Held in Trusts	Annuities Payable	Total
Balance at July 1, 2015	\$ 609,699	\$ 595,847	\$ 1,205,546
Total gains (losses)	(13,278)	-	(13,278)
Interest and dividends	12,703	-	12,703
Fees	(6,718)	-	(6,718)
Sales	(30,501)	-	(30,501)
Change in value	-	(60,012)	(60,012)
<b>Balance at June 30, 2016</b>	<b>\$ 571,905</b>	<b>\$ 535,835</b>	<b>\$ 1,107,740</b>

#### Note 16. Economic Dependency

The University participates in certain student financial aid programs of the U.S. Department of Education. The University is dependent on the U.S. Department of Education for continued financial aid assistance to the University and its students. The programs consist of student loans, loans to parents of dependent children, student grants and part-time employment. The student financial aid programs are subject to audit by the U.S. Department of Education. It is the opinion of the University's management that any disallowance or adjustment of financial aid would not have a material adverse effect on the financial statements.

#### Note 17. Risks and Uncertainties

The University received a communication from the Department of Education (DOE) dated August 2, 2017 that the University had failed to meet the financial responsibility standards for the year ended June 30, 2016. The University's composite score for the year ended June 30, 2016 was 0.7 and the Department of Education requires a composite score of 1.5. The DOE required the University to obtain an irrevocable letter of credit in the amount of \$3,112,390, which represents 50 percent of the University's federal student financial aid funding. In addition, the University must provide timely disclosure to the DOE upon the occurrence of certain oversight and financial events.

## Cincinnati Christian University

### Notes to Consolidated Financial Statements

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#### Note 18. Subsequent Events

**Subsequent events:** Subsequent events have been evaluated through March 29, 2018, the date the financial statements were available to be issued.

**Letter of credit:** The University is contingently liable under an irrevocable bank standby letter of credit issued on September 21, 2017 in connection with their compliance to the DOE as noted in Note 17. The letter of credit has a limit of \$3,112,390. There were no draws on this letter of credit as of March 29, 2018. The letter of credit was obtained to cover 50 percent of the University's federal student financial aid funding for the period September 2017 through October 2018.

#### Note 19. Recent Financial Results and Management's Plan to Address Going Concern

The University's financial statements have been prepared assuming that the University will continue as a going concern. As discussed below, the University has suffered recurring decreases in net assets that raises substantial doubt about its ability to continue as a going concern. Management's plans in regards to these matters are described below. The financial statements do not include any adjustments that might results from the outcome of this uncertainty.

For the year ended June 30, 2017, the University had a decrease in net assets of approximately \$2,183,000. In addition, through December 31, 2017 the University had an unaudited decrease in net assets of approximately \$940,000. The University has also failed to meet certain debt covenants for the years ended June 30, 2017 and 2016. In addition, the University has spent accumulated permanently restricted endowment earnings and has a deficiency in its permanently restricted endowment of approximately \$2,464,797. These conditions have resulted in significant liquidity challenges for the University. Subsequent to year end, the University took the following steps to address its current financial position:

The University entered into an agreement in October 2017 with Point University, Inc. (Point), whereas the University will promote online offerings of Point to existing and potential students in the Cincinnati metropolitan area ("market") to allow both institutions to maximize the reach of their programs and to increase their revenue potential. For the first two years of the agreement, Point will compensate the University for 20% of revenues derived from online students in the market. For the third year and thereafter, Point shall compensate the University 15% of revenues derived from online students in the market.

The University will continue to pursue conversations with certain donors who may allow the removal of restrictions on contributions made to the University.

The University leadership has reviewed its interim results and is considering additional options which may include the sale of certain assets, renegotiated third party agreements, and reductions in selling, general and administrative costs.

# **Cincinnati Christian University**

Uniform Guidance Audit Requirements

**Cincinnati Christian University**

**Schedule of Expenditures of Federal Awards  
Year Ended June 30, 2017**

<u>Federal Grantor/Pass-Through Grantor/Program or Cluster Title</u>	<u>Federal CFDA Number</u>	<u>Passed Through to Subrecipients</u>	<u>Total Federal Expenditures</u>
<b>Student Financial Aid Cluster:</b>			
<b>Department of Education</b>			
Federal Supplemental Educational Opportunity Grants	84.007	\$ -	\$ 27,544
Federal Work-Study Program	84.033	-	63,372
Federal Pell Grant Program	84.063	-	1,247,857
Federal Direct Student Loans (Note 3)	84.268	-	5,439,948
<b>Total Student Financial Aid Cluster</b>		<u>\$ -</u>	<u>\$ 6,778,721</u>

See notes to schedule of expenditures of federal awards.

## **Cincinnati Christian University**

### **Notes to Schedule of Expenditures of Federal Awards**

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#### **Note 1. Basis of Presentation**

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal award activity of Cincinnati Christian University (the University) under programs of the federal government for the year ended June 30, 2017. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the University, it is not intended to and does not present the financial position, changes in net assets, or cash flows of the University.

#### **Note 2. Summary of Significant Accounting Policies**

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following, as applicable, either the cost principles in OMB Circular A-122, Cost Principles for Non-Profit Organizations, or the cost principles contained in Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards, wherein certain types of expenditures are not allowable or are limited as to reimbursement. The University has elected not to exercise its option to use the 10-percent de minimis indirect cost rate due to the fact that the University has an existing approved indirect cost rate.

#### **Note 3. Federal Direct Student Loans Program**

The University acts as an intermediary for students receiving loans under the Federal Family Education Loans program, which includes the Direct Stafford Loans and Parent's Loans for Undergraduate Students from the federal government. The federal government is responsible for billings and collections of the loans. The University assists the federal government by processing the applications and applying funds to student accounts from the federal government. Since this program is administered by the federal government, new loans made in the fiscal year ended June 30, 2017, related to the Federal Direct Loan program are considered current year federal expenditures, whereas the outstanding loan balances are not. The total amount processed during the year ended June 30, 2017 is included on the schedule of expenditures of federal awards. The University is responsible only for the performance of certain administrative duties with respect to the Federal Direct Student Loans Program and, accordingly, balances and transactions relating to the loan programs are not included in the University's basic financial statements. Therefore, it is not practical to determine the balance of loans outstanding to student and former students of the University at June 30, 2017.

**Independent Auditor's Report on Internal Control Over Financial Reporting and  
on Compliance and Other Matters Based on an Audit of Financial Statements  
Performed in Accordance with Government Auditing Standards**

Board of Trustees  
Cincinnati Christian University  
Cincinnati, Ohio

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the consolidated financial statements of Cincinnati Christian University (the University), which comprise the consolidated statement of financial position as of June 30, 2017, and the related consolidated statements of activities and cash flows for the year then ended, and the related notes to the consolidated financial statements (collectively, the financial statements), and have issued our report thereon dated March 29, 2018.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the University's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the University's internal control. Accordingly, we do not express an opinion on the effectiveness of the University's internal control.

*A deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify a deficiency in internal control, item 2017-001, described in the accompanying schedule of findings and questioned costs that we consider to be significant deficiency.

**Independent Auditor's Report on Internal Control Over Financial Reporting and  
on Compliance and Other Matters Based on an Audit of Financial Statements  
Performed in Accordance with *Government Auditing Standards* (Continued)**

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the University's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

**University's Response to Findings**

The University's responses to the findings identified in our audit are described in the accompanying Corrective Action Plan. The University's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on it.

**Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the University's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the University's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*RSM VS LLP*

Cincinnati, Ohio  
March 29, 2018



**Independent Auditor's Report on Compliance For Each Major Federal Program and on Internal Control Over Compliance Required by the Uniform Guidance**

Board of Trustees  
Cincinnati Christian University  
Cincinnati, Ohio

**Report on Compliance for Each Major Federal Program**

We have audited Cincinnati Christian University's (the University) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on the University's major federal program for the year ended June 30, 2017. The University's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

**Management's Responsibility**

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

**Auditor's Responsibility**

Our responsibility is to express an opinion on compliance for the University's major federal program based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the University's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for the major federal program. However, our audit does not provide a legal determination of the University's compliance.

**Opinion on Each Major Federal Program**

In our opinion, the University complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended June 30, 2017.

## **Independent Auditor's Report on Compliance For Each Major Federal Program and on Internal Control Over Compliance Required by the Uniform Guidance (Continued)**

### **Other Matters**

The results of our auditing procedures disclosed instances of noncompliance, which are required to be reported in accordance with the Uniform Guidance and which are described in the accompanying schedule of findings and questioned costs as items 2017-002 and 2017-003. Our opinion on the major federal program is not modified with respect to these matters.

The University's responses to the noncompliance findings identified in our audit are described in the accompanying Corrective Action Plan. The University's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

### **Report on Internal Control Over Compliance**

Management of the University is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the University's internal control over compliance with the types of requirements that could have a direct and material effect on the major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for the major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the University's internal control over compliance.

*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control that we consider to be material weaknesses. However, we identified certain deficiencies in internal control over compliance that we consider to be significant deficiencies. We consider the deficiencies in internal control over compliance, as described in the accompanying schedule of findings and questioned costs as items 2017-002 and 2017-003 that we consider to be significant deficiencies.

The University's response to the internal control over compliance findings identified in our audit is described in the accompanying Corrective Action Plan. The University's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

*RSM US LLP*

Cincinnati, Ohio  
March 29, 2018

**Cincinnati Christian University**

**Schedule of Findings and Questioned Costs  
Year Ended June 30, 2017**

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Section I - Summary of Auditor's Results

Financial Statements

Type of report the auditor issued on whether the financial statements audited were prepared in accordance with GAAP:

Unmodified Opinion

Internal control over financial reporting:

Material weakness(es) identified?

                     yes           X           no

Significant deficiency(ies) identified not considered to be material weaknesses?

          X           yes                      none reported

Noncompliance material to financial statements noted?

                     yes           X           no

Federal Awards

Internal control over major programs:

Material weakness(es) identified?

                     yes           X           no

Significant deficiency(ies) identified not considered to be material weaknesses?

          X           yes                      none reported

Type of auditor's report issued on compliance for major programs:

Unmodified Opinion

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)?

          X           yes                      no

Major Program

CFDA Numbers

84.007

84.033

84.063

84.268

Name of Federal Program or Cluster

Student Financial Assistance Cluster:

Federal Supplemental Educational Opportunity Grants

Federal Work-Study Program

Federal Pell Grant Program

Federal Direct Student Loans

Dollar threshold used to distinguish between Type A and Type B programs:

\$750,000

Auditee qualified as a low risk auditee?

                     yes           X           no

**Cincinnati Christian University**

**Schedule of Findings and Questioned Costs (Continued)**

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Section II - Financial Statement Findings

2017-001 Segregation of Duties Related to Journal Entries and Timely Reconciliations

**Criteria:** Segregation of duties, reviews, and timely reconciliations should be in place to ensure adequate internal controls.

**Condition:** A small number of individuals have the primary responsibility for performing most of the accounting and financial duties. As a result, there is a lack of segregation of duties and certain processes are not reviewed. The same person who prepares the monthly financial statements has the ability to record journal entries, with no second review. In addition, we noted certain reconciliations and the related journal entries were not prepared for several months due to staffing issues.

**Cause:** Due to a limited number of personnel, adequate segregation of duties and reviews have not been maintained. In addition certain reconciliations are not being performed on a timely basis.

**Effect:** The financial statements could be misstated as a result of errors from journal entries recorded or from the preparation of the payroll.

**Recommendation:** The financial statements are reviewed by the President and the Finance Committee which provides a level of mitigating controls. However, proper segregation of duties are recommended. Procedures should be implemented that require a review of journal entries by another individual. Additionally, monthly reconciliations and the related entries should be recorded in a timely manner.

**Views of responsible officials of the auditee:** See Corrective Action Plan.

## Cincinnati Christian University

### Schedule of Findings and Questioned Costs (Continued)

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#### Section III – Findings and Questioned Costs for Federal Awards

##### 2017-002 Enrollment Reporting, Attendance Reporting, and Refund Processing

###### **Federal Program:** Student Financial Aid Cluster

**Criteria:** According to 34 CFR 685.309(b)(2), unless it expects to submit its next student confirmation report to the Secretary within the next 60 days, the University must notify the Department of Education within 30 days if it discovers that a Direct Subsidized, Direct Unsubsidized, or Direct PLUS Loan has been made to or on behalf of a student who has ceased to be enrolled on at least a half-time basis. In addition, for institutions required to take attendance, 34 CFR 668.22(b) states that the withdrawal date for a student who ceases to attend class, including a student who does not return from an approved leave of absence, is the last date of academic attendance as determined by the institution from its attendance records. According to 34 CFR 668.22, unearned funds must be returned no later than 45 days after the date of the school's determination that the student withdrew.

**Condition:** During the course of performing eligibility audit procedures, we identified one student from a sample of 40 who graduated in the fall semester, but the National Student Loan Data System (NSLDS) was not notified of the graduation within the required timeframe (30 days).

During the course of refund testing, we identified 1) one student from a sample of four who withdrew and did not have their status reported to the NSLDS in the required timeframe and 2) Refund of funds was not performed timely for one student from a sample of four.

**Cause:** Controls are not effectively designed to report changes in student enrollment status within 30 days and return funds within the 45 days. In addition, controls are not in place to ensure timely and accurate reporting of student attendance.

**Effect:** The University has not complied with the requirements of 34 CFR 685.309(b)(2) and 34 CFR 668.22.

**Questioned costs:** Not determinable

This finding was reported as finding 2016-004 in the prior year audit reporting package.

**Recommendation:** The University should design controls to ensure student enrollment changes are reported within the required time frame. The University should also design controls to ensure attendance is reported timely and accurately. Lastly, the University should design controls to ensure funds of withdrawn students are refund within the required time frame.

**Views of responsible officials of the auditee:** See Corrective Action Plan.

**Cincinnati Christian University**

**Schedule of Findings and Questioned Costs (Continued)**

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Section III – Findings and Questioned Costs for Federal Awards (Continued)

2017-003 Oversight of Student Financial Aid Department

**Federal Program:** Student Financial Aid Cluster

**Criteria:** According to 2 CFR 200.303(a), the non-federal entity must: establish and maintain effective internal control over the Federal award that provides reasonable assurance that the non-Federal entity is managing the Federal award in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award. These internal controls should be in compliance with guidance in “Standards for Internal Control in the Federal Government” issued by the Comptroller General of the United States or the “Internal Control Integrated Framework”, issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

**Condition:** The Associate Director of Financial Aid determines student eligibility for federal student financial aid, calculates Title IV refunds, and performs other procedures related to federal student financial aid that are not reviewed by another individual at the University.

**Cause:** Adequate procedures have not been established to review the activity related to student financial aid.

**Effect:** Errors could exist and not be detected.

**Questioned costs:** Not determinable

This finding was reported as finding 2016-005 in the prior year audit reporting package.

**Recommendation:** The University should develop procedures that provide oversight and review of federal student financial aid activities. This would include the determination of eligibility, correspondence with students and the calculation of Title IV refunds.

**Views of responsible officials of the auditee:** See Corrective Action Plan.

**Cincinnati Christian University**

**Summary Schedule of Prior Audit Findings and Questioned Costs**

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Section II - Financial Statement Findings

**Identifying number:** 2016-001

**Audit Finding:** A small number of individuals have the primary responsibility for performing most of the accounting and financial duties. As a result, there is a lack of segregation of duties and certain processes are not reviewed. The same person who prepares the monthly financial statements also records most journal entries, with no second review. In addition, although each payroll is reviewed in total for reasonableness, the payroll journal and management reports are not reviewed by anyone.

**Corrective action taken:** See 2017-001

**Identifying number:** 2016-002

**Audit finding:** The University maintains accounting records related to individual permanently restricted net asset funds. In addition, the University will calculate amounts available to be distributed as temporarily restricted net assets based on donor restrictions or University policies. The amounts available to be used are provided to appropriate personnel for scholarship awards or other purposes. However, journal entries are not posted to the general ledger for the amounts available for temporarily restricted purposes (from investment returns) and any related expenditures to arrive at the remaining temporarily restricted balances related to each endowment fund.

**Corrective action taken:** The University implemented controls to appropriately record net asset balances related to donor restricted amounts.

**Summary Schedule of Prior Audit Findings and Questioned Costs (Continued)**

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Section III – Findings and Questioned Costs for Federal Awards

**Identifying number:** 2016-003

**Audit finding:** During testing of the Title IV reporting requirements, it was noted that the University had not complied with the athletic reporting requirements. The University did not report the graduation rates and transfer-out rates for student athletes, which is required as the institution provides athletically related aid to students. While testing the University's safety requirements, it was identified that the University does not have written policies and procedures for missing student notification. During testing of the drug and alcohol abuse prevention program, it was noted that the University has not performed a biennial review of the program. This is required to help assess the effectiveness of the program and to ensure disciplinary sanctions are consistently enforced

**Corrective action taken:** The University did perform a biennial review of the effectiveness of the drug and alcohol abuse program and complied with reporting requirements for athletics and missing student policies.

**Identifying number:** 2016-004

**Audit finding:** During the course of performing eligibility audit procedures, one student was identified from a sample of 40 who graduated in the fall semester, but the National Student Loan Data System (NSLDS) was not notified of the graduation within the required timeframe (30 days). Refund testing identified 1) three students from a sample of five who withdrew and did not have their status reported to the NSLDS in the required timeframe and 2) one student from a sample of five that had a date of determination of withdrawal greater than 14 days.

**Corrective action taken:** See 2017-002.

**Identifying number:** 2016-005

**Audit finding:** The Associate Director of Financial Aid determines student eligibility for federal student financial aid, calculates Title IV refunds, and performs other procedures related to federal student financial aid that are not reviewed by another individual at the University.

**Corrective action taken:** See 2017-003.



## Corrective Action Plan

For the Year Ended June 30, 2017

Finding Number: 2017.001

View of responsible officials: Journal entries will be required to have another individual post the entry in the GL after a detailed review. Monthly reconciliations and the related journal entries will be prepared and posted in a timely manner.

Finding Number: 2017.002

View of responsible officials: The University will design controls to ensure student enrollment changes are reported within the required time frame to the National Student Loan Data System. The University will design controls to ensure attendance is reported timely and accurately. Lastly, the University will design controls to ensure funds of withdrawn students are refund within the required time frame.

Finding Number: 2017.003

View of responsible officials: The University will develop procedures that provide oversight and review of federal student financial aid activities. This will include the determination of eligibility, correspondence with students and the calculation of Title IV refunds.



VPFA

Name

Title